

**FERC Technical Conference
New York City, New York
October 20, 2003**

**Generation Owner Comments
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- Generation Owners are the other “owners.” Our assets, power plants, fuel inventories and generation contracts, are essential to ensure the reliability and the balanced expansion of the electric system to meet the needs of the consumer both today and in the future. However, unlike the Transmission Owners, we have no presumption of a regulated cost recovery on our asset investments. We rely on competition.
- For competitive markets to work, and to benefit consumers, they must be sustainable over the long term and provide all owners – both monopolists and competitive firms – with the earned opportunity to continue to operate. Two elements are critical to the competitive model: a healthy financial climate for both generation and transmission owners, and a regulatory environment that fosters market rules that promote and develop competitive markets.
- The New York ISO, as the operator of the New York Wholesale Electric Market, has accomplished much in the establishment of a Wholesale Market Platform that is close to the original vision of the Commission. All sectors, working together with the ISO staff, have

helped in the continued process of creating and improving our markets.

- Accomplishments include a transparent day ahead market that co-optimizes energy and ancillary services and utilizes bid based Locational Based Marginal Pricing for congestion management; and Transmission Congestion Contracts for financial congestion hedges. Recent significant improvements include rule changes that allow pricing in the real-time market to accurately reflect scarcity conditions when they are present on the system. In addition, with the ICAP Demand Curve, New York has developed a sound and effective mechanism that addresses Resource Adequacy requirements and aligns them with the requirements of, and structure for, competitive energy markets. The ISO is to be congratulated for these accomplishments. The New York ISO continues to learn from actual market experience and to refine its functional model in ways that others can emulate and utilize.
- However, as with any developing market process there remains work to be done. In this case, market design and governance issues are still not completed. Significant work remains to fill in missing components.

- For example, tariff provisions, market rules, and administrative structures that inhibit efficient cross border trading between ISO market regions concern us. Eliminating out-service charges on both sides of the border and facilitating efficient trading at the borders are necessary steps that can and should be accomplished regardless of other structural changes to market institutions.
- Whether called an RTO or an ISO, the central mission of a market operator is to design, operate, and administer competitive, efficient and reliable markets that are sustainable over the long term for the ultimate benefit of consumers. The structure that is applied to the system operator, for its governance, its mission, and its very authority, must be designed to achieve that goal. In developing the minimum functions of a RTO in Order 2000, and in all subsequent proposed rulings since, the first principle the Commission has always identified as being essential is that of the independence of the grid operator. This fundamental, independence, is a requirement even in an evolved market such as New York. Independence is essential to consumer confidence and, ultimately, investor confidence.
- The task that remains for New York is that of governance. Today in New York, in the absence of an exigent circumstance, the ISO –

the impartial, independent entity unhampered by any financial stake in the market – cannot alone submit a tariff filing under FPA Section 205. Instead, the current New York governance structure allows a weighted vote of 58% of market participants in the Management Committee to dictate the rule changes that the ISO may submit under Section 205 to the Commission. Moreover, while technically defined as five different sectors, the New York Market Participants essentially fall into two categories – load interests and generation supply interests. It is unacceptable in any market that one segment could routinely and unilaterally trump any other. Markets must be designed to achieve the long-term best interests of consumers, not the parochial short-term interests of any segment.

- The key to change will be enhancing the ISO's independence. The Generation Owners believe that a movement to an advisory role for stakeholders on market rules should be considered in the ISO planning process. However, several provisions are vital to assure that the ISO is also accountable to the market. First, a process must be developed to ensure that the ISO Board routinely obtains the input of all stakeholders – both Market Participants and the State Commission – before submitting a Section 205 filing to the Commission.

- Moreover, an Independent Market Monitor, external to the ISO itself, and charged with reviewing the overall effectiveness and efficiency of the markets, including the operations and actions of the ISO, is necessary. The functions of the IMM should recognize that, the ISO, while independent, might not be unbiased with regard to the suitability or administration of rules it designed. New York is very close to this model, however we need to formalize the model to include the safeguards recently adopted for the MISO.
- Earlier this summer, the ISO began to engage Market Participants in a Strategic Initiative effort designed to define the future of New York's markets. The Generation Owners strongly believe that resolution of the governance issues must be a focal part of that effort, and toward that goal we will give you our commitment to work through this effort first with the ISO and other Market Participants, to consider refinements to New York's governance structure that will bring it more in line with this Commission's Wholesale Market Platform.
- We believe strongly that a structure that provides independence of the system operator, along with an appropriate degree of accountability of the system operator to the markets, will produce the stability and certainty necessary for the continued development

of effective and efficient wholesale markets in New York -- markets that will produce the consumer benefits that are the goal.